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Brazil

Grain and Feed

Rice Update

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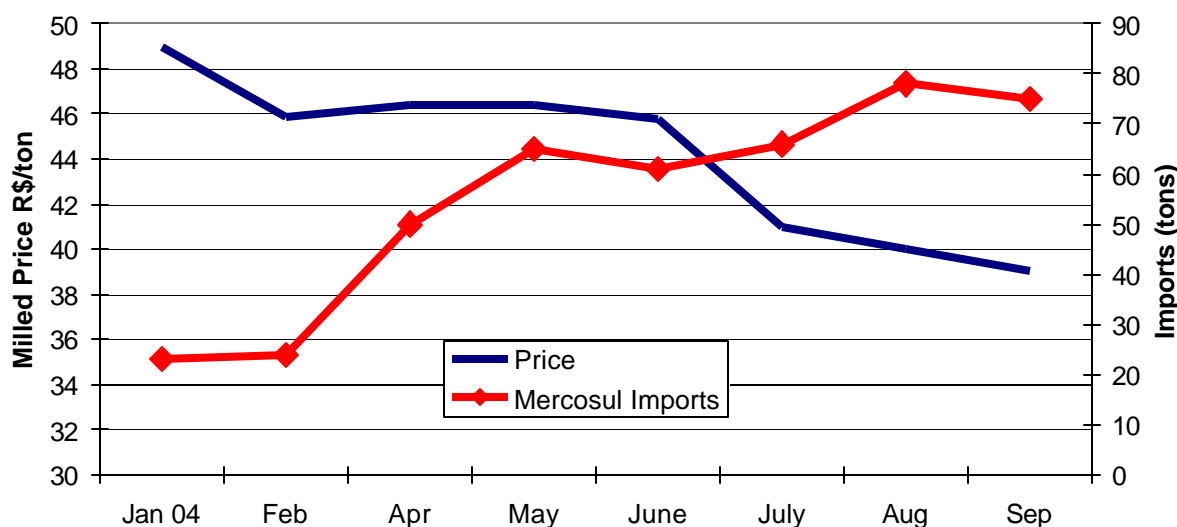
Report Highlights:

Rice imports from neighboring Mercosul countries are leading to increased hostility from Brazilian producers, which are considering legal actions as well as increasing pressure on the government to stop imports. Demonstrations at border crossings have impeded imports from Argentina and Uruguay and the growing discontent is threatening the Mercosul coalition that is preparing for a WTO case against U.S. rice support measures.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

Brazilian rice producers have complained for the past several months about supplies from neighboring countries flooding the market and depressing prices. Recent rough rice price quotes in Rio Grande do Sul have been below R\$27 per sack with an estimated cost of production of R\$29 per sack. Despite the large Brazilian crop last year, imports from Argentina and Uruguay are entering southern Brazil at an unexpectedly strong pace and further weakening prices (see chart below). This difficult situation finally hit the breaking point this week with producers and locals blocking trucks carrying rice from Uruguay at the border crossings. The tremendous support of locals in the protests is largely due to the free rice provided by producers to those who participate in stopping trucks.

Rice Prices and Mercosul Imports



The demonstrations at the ports are organized by the Federation of Rice Associations of Rio Grande do Sul (Federarroz). The president of Federarroz threatened yesterday to intensify the protests at the border crossings if the government does not act soon. Producers demand that the government take measures to equalize the PIS/Cofins taxes paid by domestic producers with those paid by Mercosul exporters. Currently, it is estimated that rice from Argentina and Uruguay enters Brazil with a 12 percent to 18 percent tax discount (including the ICMS tax) compared to domestic rice. Furthermore, producers argue for an increase in the Common External Tariff (CXT) for non-Mercosul imports from 13 percent to 35 percent. However, Post notes that the vast majority of imports over the past few months have been from Mercosul nations. Producer organizations also request that the Brazilian government hold neighboring governments accountable for breaking an agreement, which states that Mercosul countries must direct exports outside of South America. However, Post is unable to confirm that an official agreement was signed. Rather, it appears that this agreement was more of a statement of intention expressed by Argentina and Uruguay at a recent rice conference.

Uruguayan President, Jorge Battle, has publicly condemned the boarder protests and the "attitude of Brazilian producers." Some contacts have suggested that these recent events could impact the coalition formed to challenge U.S. domestic rice support. The growing discontent of Brazilian producers is worrisome to Argentine and Uruguayan exporters who fear that the government of Brazil may take action against imports. A major argument for such action is that the cost of production in Argentina and Uruguay is much lower than Brazil since fertilizers, chemicals, and machinery are less expensive and entering these exporting

countries at lower taxes. Possible action by the Brazilian government is also troubling to producers in the neighboring Mercosul countries that are beginning to see Brazil as less of a partner and more a trade adversary. This relationship is further strained by Brazil's desire to export rice, with 100,000 tons already reported to be sold. Such exports would likely compete in the same markets as those from Argentina.

Despite these growing problems, it is unlikely that Argentina and Uruguay will drop their support for the potential WTO case (see report BR4621 for more information on the potential case). At the end of August a preliminary study on a potential WTO case was presented at the National Rice Growers Conference. Following this presentation, Mercosul representatives gathered to consider the case but no further progress has been made.